SELECTOR® Money Management
2008 Year End Review

The year 2008 will go into the record books as one of the roughest ever for financial markets. The sequence of events, from the banking crisis to the bailouts to the official declaration of an economic recession, is well documented. Most of the damage to equity and bond markets occurring in the months of October and November, which experienced unprecedented market volatility. Technical weakness fed on poor economic news. That was blown into wildfire proportions by political winds which resulted in even more dramatic market action. By the time the smoke had cleared in late November, equity index prices were halved during the thirteen months from the beginning of the Bear Market in October of 2007 .

The month of December was a long, cool drink of water to end the fourth quarter. Equities still have a ways to go before they reclaim their end-of-third-quarter prices. But short-term downtrends for equity indexes were finally broken in December as buyers returned in search of decade-long bargains. Decade-long, because in the course of experiencing two epic Bear Markets, from 2000-2003, and from 2007-2008, equity prices are roughly the same ten years ago. This is in spite of huge gains in productivity, efficiency, and technology over the past ten years. Thanks to an almost unbelievable chain of events that captured the headlines, U.S. and international stock markets are currently selling at prices that most professional investors believed we would never see again.

Long-term and intermediate-term trends remain negative, which is expected after such a dramatic decline in prices during the fourth quarter. These trendlines, as well as the support/resistance levels that were broken as markets declined, will be the handholds and footholds that investors will use to rescale the market's 'Wall of Worry.' In addition to breaking short-term downtrends, most equity indexes at year's end were also reaching and topping their 60-day moving averages. It will take many months for a complete revival after such a dramatic decline, but the greatest percentage gains historically occur early in the recovery process. It is our belief that at current levels the greatest risk lies in being out of the market, rather than in the market.

The rapid developments of the past four months have been cataclysmic, but also cathartic. Most of the weaknesses and excesses that had developed in financial markets have been identified, and the fixes are in place. Investment grade bond markets have seen remarkable improvement in the past 30 days. Once the bond markets are secure, the path should begin to clear for equity markets. Interest rates are at record lows. Economic expectations are almost nil, and corporate earnings projections are modest. Analysts have been so wrong the past twelve months that no one dares to be even moderately optimistic. This is a very ripe environment for equities. In a good way.

The Bear Market is not dead yet, and caution is still advised. Historically, the sector leaders just prior to a market decline experience good inflows as buyers dollar-cost-average their existing positions. We remain invested in leadership sectors that were in place prior to the September-November market meltdown. SELECTOR® Aggressive Growth models remain 100% invested in equities, SELECTOR® Growth models are 80% equities/20% bonds. SELECTOR® Conservative Growth models are 60% equities/40% bonds and SELECTOR® Balanced Growth models are 40% equities/60% bonds. SELECTOR® Income & Growth models are 20% equities/80% bonds.

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 Sources: Bloomberg, Standard and Poor's, Morningstar, CBS Marketwatch, Lipper Analytical.

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